

# CRS Report for Congress

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## Australia: Background and U.S. Relations

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### Summary

The Commonwealth of Australia and the United States are close allies under the ANZUS treaty. Australia evoked the treaty to offer assistance to the United States after the attacks of September 11, 2001, in which 22 Australians were among the dead. Australia was one of the first countries to commit troops to United States military operations in Afghanistan and Iraq. On October 12, 2002, a terrorist attack on Western tourists in Bali, Indonesia, killed over 200 including 88 Australians and seven Americans. The Howard Government's strong commitment to the U.S. in Iraq has come under scrutiny by the opposition Labor Party leader Mark Latham. The recently negotiated bilateral Free Trade Agreement would likely strengthen already close ties between the two allies if ratified. Australia has led peace-keeping efforts in the Asia-Pacific region including East Timor and most recently in the Solomon Islands and has supported U.S. efforts in the war against terrorism in Southeast Asia. This report will be updated.

### Recent Developments

At the general election held on November 11, 2001, the Liberal-National Party coalition maintained the majority that it has held in the House of Representatives since 1996. Prime Minister John Howard, returning for a third term, promised tough policies on immigrants and terrorism. The Howard government is expected to go to the polls again in 2004. The center-right government's platform supports reducing taxes and the power of labor unions, strengthening Australia's trade and security relationship with the United States, and reformulating former Labor Party leader Paul Keating's diplomatic focus on Asia.

The leader of the opposition Labor Party, Mark Latham, has been criticized by the Howard Government for describing President Bush in unfavorable terms and for his previously announced intent to withdraw the approximately 850 Australian troops in Iraq if elected. In response to Latham's policy, President Bush stated that it would be a

“disastrous decision” that would “dispirit those who love freedom in Iraq and embolden the enemies who believe they can shake our will.”<sup>1</sup>

This exchange has made the ANZUS alliance a key election issue in Australia and has led to tension between the Labor Party and the Bush Administration. Deputy Secretary of State Armitage’s criticism of Labor’s policy on Iraq led former Labor Prime Minister Paul Keating to urge the United States to stay out of Australian elections. Latham addressed the issue by reappointing former Labor Party leader Kim Beazley to head the opposition defense portfolio. Beazley was formerly Defense Minister in the 1980s and comes from the pro-United States wing of the Labor Party.<sup>2</sup> Observers have noted that his return to the Labor front bench is intended to signal Australian voters and the United States that Latham, while seeking to differentiate himself from Howard on defense issues, will not fundamentally change the close defense relationship between the two countries. Latham announced that he would increase economic assistance to Iraq and that if advised he would leave troops in Iraq.<sup>3</sup> Fifty six percent of Australian voters polled “thought Bush was out of order” for intervening in Australian politics on the Iraq issue.<sup>4</sup> Australia followed the United Kingdom in making the most significant military contribution to the war in Iraq.

#### Australia at a Glance

**Government:** Parliamentary democracy and federal state system.

**Leadership:** Prime Minister John Howard  
Head of State Queen Elizabeth II, who appoints a Governor-General, Maj.Gen. Michael Jeffrey

**Political Parties:** Australian Democratic, Australian Labor, Green, Liberal, National, One Nation

**Capital:** Canberra **Population:** 19.3 million

**Ethnic groups:** Caucasian 92%, Asian 7%, aboriginal and other 1%

**Foreign-born population:** 23.6%

**GDP per capita:** \$27,000 (PPP)

**GDP composition:** agriculture 3%, industry 25%, services, 72%

**Sources:** CIA World Factbook; Niesen-Netratings; Migration Information Source

## Defense Ties with the United States

President Bush reaffirmed the bonds of the alliance on October 22<sup>nd</sup> and 23<sup>rd</sup>, 2003, during a visit to Australia where he met with Prime Minister Howard and addressed a special sitting of parliament to thank Australia for its role in the war on terror and for its support in Iraq. The now bilateral alliance, which stems from the trilateral Australia, New Zealand, United States Security Treaty (ANZUS) of 1951, took on new meaning, for the United States and Australia, when Australia evoked the treaty to offer assistance to the United States in the wake of the 9/11 attacks. In 1986, after New Zealand refused port access to U.S. Navy ships with nuclear capabilities, the United States suspended its security obligations to New Zealand. The annual ANZUS meeting was replaced by the Australian-U.S. Ministerial Talks (AUSMIN). The two countries also operate early warning and intelligence joint facilities at Pine Gap and Nurrungar. The *Sydney*

<sup>1</sup> “Australia: Friendly Fire,” *Far Eastern Economic Review*, July 15, 2004.

<sup>2</sup> “Beazley Can Defuse the Alliance Imbroglia,” *Financial Review*, July 13, 2004.

<sup>3</sup> Iam McPhedran, “Latham Promises Extra \$75 Million to Rebuild Iraq,” *The Courier Mail*, July 13, 2004.

<sup>4</sup> “Australia: Friendly Fire,” *Far Eastern Economic Review*, July 15, 2004.

*Declaration* of 1996 reaffirmed the Australia-U.S. defense alliance with continued support for combined large-scale military exercises, joint intelligence facilities, and other collaborative security activities.

In December 2003, the Howard government announced plans to participate in United States missile defense development. This marks a significant evolution of the alliance relationship.<sup>5</sup> Australia's Jindalee over-the-horizon radar has demonstrated in trials that it is capable of detecting missile launches.<sup>6</sup> The decision to participate in the missile defense program is part of a larger decision by Australia, as demonstrated in Afghanistan and Iraq, to forge an increasingly deep connection with the United States' military strategy and operations. Australia has also joined the U.S.-sponsored Proliferation Security Initiative (PSI). The PSI's aim is to interdict aircraft and ships that could be carrying weapons of mass destruction, missiles or drugs. The United States has also reportedly approached Australia on the possibility of positioning combat troops and aircraft in Australia to aid in the war on terror.<sup>7</sup>

Prime Minister John Howard has redefined Australia's relationship with both Asia and the United States by emphasizing that Australia does not need to choose between its history and geography. Although Australia continues to recognize the need for close relationships with Asia, it does not wish to emphasize these ties at the expense of its Western roots and democratic values. The Howard government has also aimed to keep the United States closely involved in East Asia. Japan and some other Asian countries have welcomed the strengthened U.S.-Australian defense relationship, but others, notably China, have been critical. Beijing strategists have worried that recent strengthening of the U.S. alliances with Australia and Japan may be aimed at "containing" China and preventing its rising power and influence. Some have argued that greater Australian support of the U.S. may undermine Australia's efforts to engage Asia at a deeper level.<sup>8</sup> Australia was the first country to offer its armed services to the International Coalition Against Terrorism (ICAT) and has sent three 150-member rotations of Special Forces (Special Air Service or SAS) troops plus 1,400 regular troops to Afghanistan. The Howard government supported the U.S. in Iraq by sending about 2,000 defense personnel; F/A-18, P-3 and C-130 aircraft; two ANZAC Frigates; and a special forces task group.<sup>9</sup>

Australia has steadily increased funding for defense with an additional AUD\$2.1 billion pledged over the next five years.<sup>10</sup> Total defense spending for FY2003/04 should

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<sup>5</sup> Cynthia Banham, "Australia Joins U.S. Missile Defense Plan," *The Sydney Morning Herald*, December 5, 2003.

<sup>6</sup> Daniel Clery, "New Missile-killer Pact to Put Latham Under Pressure," *The West Australian*, December 5, 2003.

<sup>7</sup> Janaki Kremmer, "US Said to Eye Troop Deployment; Terror in Southeast Asia is Focus," *The Washington Times*, May 26, 2003.

<sup>8</sup> Derek McDougall, "Australia and Asia-Pacific Security Regionalism: From Hawke and Keating to Howard," *Contemporary Southeast Asia* (Singapore), April 2001.

<sup>9</sup> "Operation Falconer," Australian Department of Defense, [<http://www.defence.gov.au>].

<sup>10</sup> "Australian Budget Boosts Security," *BBC Monitoring Newsfile*, May 13, 2003.

equal \$11.6 billion.<sup>11</sup> The budget also approved funds for Australian participation in the Joint Strike Fighter (JSF) program, enhanced electronic warfare capabilities and a new airborne tanker fleet. The Defense White Paper of 2000 was updated to adjust to the new strategic realities of the war against terror. Australia has, like the United States, undergone a fundamental rethinking of the basis of its security posture post-9/11/Bali. Some defense policy makers are asking if the traditional underpinnings of Australian defense planning and capability development — defense of Australia, operations in the region and coalition warfare — “still provide a sufficiently firm but flexible foundation for planning and capability development, particularly when addressing today’s threats.”<sup>12</sup> Australia is currently undergoing a defense capability review that will produce a 10-year procurement plan. Its initial findings have endorsed the Joint Strike Fighter, new air warfare destroyers, and new main battle tanks among other programs.<sup>13</sup>

## Economic and Bilateral Trade Issues

Australia’s economy has performed well in recent years. With a purchasing power parity income of \$27,000, Australia ranks 16<sup>th</sup> in the world. Australia’s economy will likely grow by 4% in 2004 with unemployment declining to 5.75%. A strong wheat harvest and expanded tourism helped Australia shrink its trade deficit to a seven month low in December 2003. The strong economy has also provided a large government surplus and the Australian dollar has increased in value 31% in 2003 to 72 cents U.S.<sup>14</sup> The Australian government hopes that the recently negotiated free trade deal with the United States will fuel further growth.<sup>15</sup> Australia has a wide range of natural resources. While Australia’s economy is dominated by its services sector, the agricultural, mining, and energy sectors account for the bulk of its exports. Among its largest export items are coal, gold, iron ore, aluminum, mineral fuels, meat, and wheat. The Australian economy and balance of trade are strongly influenced by world prices for primary products.

President Bush and Prime Minister Howard agreed to finalize a Free Trade Agreement (FTA) by the end of 2003 during Howard’s visit at Bush’s ranch in Crawford, Texas, in May of 2003. It took until February 8, 2004, for this goal to be realized. It now remains for the United States Congress and the Australian Parliament to ratify the agreement. Some estimates project that an Australian-U.S. Free Trade Agreement (AUSFTA) could increase U.S. manufacturing exports by up to \$2 billion per year.<sup>16</sup> Elements within the Labor Party, including former Prime Minister Keating, have

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<sup>11</sup> Robert Wall, “Defense Boosts Australia Plans Modest Increase in Defense Spending,” *Aviation Week and Space Technology*, May 19, 2003.

<sup>12</sup> Ministry of Defense, *Australia’s National Security: A Defense Update* (Canberra: Commonwealth of Australia, 2003).

<sup>13</sup> Gregor Ferguson, “Australia Cuts Forces to Fund Future Needs,” *Defense News*, November 17, 2003.

<sup>14</sup> G. Daly, “Australia’s Pre-election Bounty,” *International Herald Tribune*, December 9, 2003.

<sup>15</sup> Tom Holland, “A Booming Economy Looks Overseas,” *Far Eastern Economic Review*, June 5, 2003.

<sup>16</sup> E. Becker and R. Pear, “Trade Agreement May Undercut Importing of Inexpensive Drugs,” *The New York Times*, July 12, 2004.

expressed doubts about the agreement, arguing that it would hurt Australian farmers and undercut Australia's trade with its East Asian partners.<sup>17</sup> Recognizing Australia's contribution to the United States' war against terror, Friends of Australia Congressional Caucus co-chair Jennifer Dunn stated, "It is important to recognize the people who were there to help."<sup>18</sup> The bilateral free trade agreement between the United States and Australia will eliminate tariffs on nearly all manufactured goods but will retain heavy United States protection for American sugar, dairy and beef industries. Australian Trade Minister Vaile stated the agreement "moves Australia into a much closer level of integration with the biggest economy in the world."<sup>19</sup>

Australia's main exports to the United States include meat and poultry, wine, crude oil and inorganic chemicals; the major U.S. exports to Australia include aircraft and parts, chemicals, computers, and pharmaceuticals. Unlike the situation with most countries, the United States runs a trade surplus with Australia that averaged approximately \$6 billion annually from 1998 to 2002.<sup>20</sup> Australian officials have in the past complained about several U.S. trading practices and actions that they have deemed unfair, including U.S. non-tariff barriers affecting Australian exports of beef, lamb, dairy products, sugar, and steel.

## Asia-Pacific Affairs

Australia and the United States share economic and security interests in the Asia-Pacific region. The region accounts for about 70% of all Australian trade and approximately 40% of all U.S. trade. Australia and the United States have played leading roles in the formulation and development of the Asia-Pacific Economic Cooperation (APEC) forum. Australia and the United States have also worked closely with the Association of Southeast Asian Nations (ASEAN) Regional Forum (ARF) — a nascent security forum for the Asia-Pacific region. In 2002, Australia and Singapore finalized a Free Trade Agreement (FTA). In 2000, Australia, along with Italy, the Philippines, and Britain, agreed to restore or establish diplomatic relations with North Korea. Australia is strongly committed to the passage of the Comprehensive Nuclear Test Ban Treaty (CTBT), adopted by the United Nations General Assembly in 1996 and ratified by Australia and 96 other countries.<sup>21</sup> In 2002, Australia ratified the treaty authorizing the International Criminal Court and has urged the United States to do so.

Under the previous Labor Prime Minister Paul Keating, Australia had been pursuing a policy of engagement, or enmeshment, with Asia. This initiative was not fully supported by the Australian public or regional states, such as Malaysia, which have had a difficult time accepting Australia as an Asian nation. Indonesia and Malaysia reportedly

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<sup>17</sup> Tom Holland, "A Booming Economy Looks Overseas," *Far Eastern Economic Review*, June 5, 2003.

<sup>18</sup> Stephen Norton, "Land Down Under May Be Next Up for Trade Pact," *Congressional Quarterly*, July 17, 2003.

<sup>19</sup> Paul Blustein, "U.S., Australia Agree on Free-Trade Pact," *The Washington Post*, February 9, 2004.

<sup>20</sup> "US Enjoys Big Trade Advantage Over Australia," *CQ Today*, July 18, 2003.

<sup>21</sup> CRS Issue Brief #92099, *Nuclear Weapons: Comprehensive Test Ban Treaty*, J. Medalia.

rejected Australia's bid for membership in ASEAN.<sup>22</sup> Despite diplomatic differences Australia continues to have extensive trade and security linkages with regional states.

Australia's commitment to regional security and humanitarian concerns in the Asia-Pacific region is demonstrated by its involvement in East Timor. The former Portuguese colony was occupied by Indonesia from 1975 to 1999. In 1998, diplomatic intervention by Prime Minister Howard prompted the dialogue between Indonesian officials and East Timorese nationalists that resulted in an agreement to hold U.N.-supervised elections in 1999. On August 30, 1999, nearly 80% of East Timor's voters voted to separate from Indonesia. Following the announcement of the result, anti-independence militias launched a campaign of violence. On September 15, 1999, the U.N. Security Council authorized the International Force East Timor (INTERFET) to restore peace and security and protect and support the U.N. mission personnel in East Timor. INTERFET operated under a unified command structure headed initially by Australia. East Timor became independent in 2002. In June 2003, Prime Minister Howard indicated that Australian troops might remain in East Timor for years to prevent the country from "coming under unacceptable strain and perhaps collapse." Australia's contingent of 1,000 troops constituted approximately one quarter of the U.N. force in June of 2003.<sup>23</sup>

Australia's intervention in the Solomon Islands in July of 2003 demonstrated Australia's resolve to reassert its influence and promote stability in the South Pacific. This intervention, when taken in the context of Australia's ongoing presence in East Timor and ongoing efforts to promote peace and good governance in Papua New Guinea, demonstrates Australia's commitment to promote stability in the region in order to prevent territory from slipping into anarchy. Australia has also proposed that the smaller of the South Pacific micro-states pool their resources for their common good.

On October 12, 2002, two bombs decimated two crowded nightclubs full of foreign tourists in Bali, Indonesia, killing more than approximately 200 foreigners and Indonesians and injuring 300. There were 88 Australians among the dead and seven Americans. Indonesian officials attributed the bombing to the militant Islamic network Jemaah Islamiyah (JI), which has links to Al Qaeda. JI has as its goal an Islamic state that encompasses Indonesia, Malaysia, the Southern Philippines, and Northern Australia. Australian and Indonesian counter-terror cooperation has improved as a result of cooperation on the investigation into the Bali blasts. Australia has signed anti-terrorism pacts with a number of its Southeast Asian neighbors. It also provides counter-terror support to the Pacific Island Forum Secretariat.<sup>24</sup>

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<sup>22</sup> Lincoln Wright, "New Row Sours Asia Links," *Canberra Times*, November 7, 2002.

<sup>23</sup> "Australian PM Hints at Long-term Military Presence in East Timor," *BBC Monitoring Service*, June 19, 2003.

<sup>24</sup> Minister for Foreign Affairs Downer, "Counter-Terrorism Package," March 7, 2003.